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REAL ESTATE ECONOMISTS, APPRAISERS AND COUNSELORS

A COMPARISON OF BUSINESS BAROMETERS AND REAL ESTATE

THERE are many misconceptions about the relationship of fluctuations in real estate to fluctuations in other economic data. During the past 30 years our organization has answered many questions from persons who asked whether real estate led or followed certain other changes in general business.

The center spread of this report shows the relationships which have existed from 1910 to the present. On this chart we show the fluctuations in real estate activity, in mortgage activity, in the building of dwelling units, in selling prices of existing housing, in the cost of new housing, in residential rents, in wholesale prices, and in industrial production. This is a ratio chart. The lines are so drawn that a similar fluctuation in two lines indicates a similar percentage change.

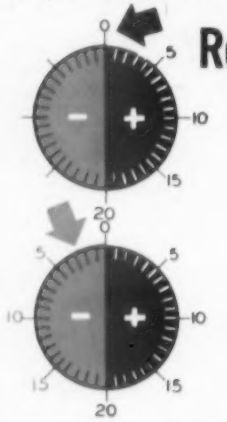
The first conclusion which we can draw from this comparison is that since 1910 the fluctuations in the construction of dwelling units have been greater than they have been for any other line on the chart. The drop from the peak in 1925 to the low point in the depression of the 1930's was a larger percentage drop than any other line on the chart experienced. In a similar manner, the drop during the 1940's was the most rapid drop shown by any line on the chart. The increase which followed this was also the most sudden and startling rise. Actually the drop during the 1940's was entirely artificial, as it was caused by the embargo on residential building during World War II. Had it not been for this embargo, undoubtedly the building of dwelling units would have built up rapidly during the middle 1940's to a peak which would have surpassed the 1925 peak by a very large percentage. This would then have been followed by a decline somewhat similar to that from 1925 to the 1930's. Because of the embargo and the interruption in building, however, a relatively high volume of building has been maintained from the middle 1940's to the present.

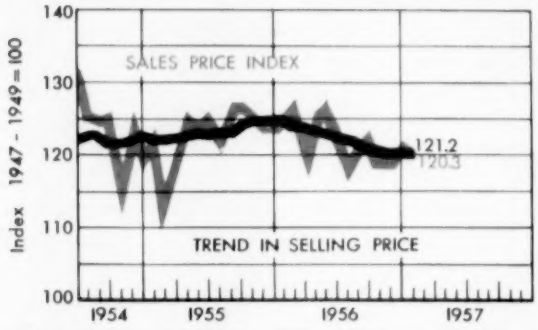
Private residential building in January 1957 continued to decline on a seasonally adjusted basis. In November 1956 we were building at a seasonally adjusted annual rate of 1,060,000 new dwelling units. In December this had dropped to 1,030,000 new dwelling units, and in January it had dropped to 1,010,000. This compares with a rate in January 1956 of 1,195,000, and in January 1955 of 1,416,000. There is no proof that the decline has stopped.

The cost of building a standard six-room frame house has not shown nearly as much fluctuation as has the number of dwelling units built. If the cost of building were corrected by the changes in the value of the dollar, the resulting line would run relatively smoothly, but with a constant upward drift. There is considerable similarity between the lines showing the cost of building a standard six-room frame house and the selling price of typical existing houses. As a rule, when building costs have risen in the past, there has been a tendency for existing housing to take on at least a part of the increase, and when building costs fell, there has been a tendency for existing housing to drop by at least as great a percentage, but with some lag. In the recent past we have been faced with rising construction costs and dropping selling prices on existing buildings. This does not seem to be a normal relationship of the two lines, and the experience of the past would indicate that if construction costs continue to rise this should have a stimulating effect, all other factors being equal, on the selling prices of existing buildings.

The building cost of our standard six-room frame residence increased by a very minor amount in January 1957 in comparison with the December cost, but the cost in comparison with a year ago is up $626, or 3.6%. In comparison with 2 years ago, it is up $1,341, or 8.1%. On the other hand, our selling price index showed no change in comparison with the preceding month, but is down 3.3% in comparison with January of a year ago.

Real Estate Sales Price Comparisons





Date	Trend in selling price	Probable selling price of a house that sold for $12,000 in 1947-49 period
1947-49	100.0	$12,000
1913	40.1	4,812
1918	34.1	4,092
Mar. '29	73.9	8,868
May '32	34.8	4,176
Apr. '34	44.8	5,376
July '37	40.1	4,812
Apr. '38	42.8	5,136
Mar. '41	40.1	4,812
Oct. '48	104.5	$12,540
Oct. '53	119.7	14,360
Oct. '54	122.3	14,680
Jan. '55	122.9	14,750
May '55	123.5	14,820
Oct. '55	125.1	15,010
Jan. '55	122.9	14,750
May '55	123.5	14,820
Oct. '55	125.1	15,010
Jan. '56	125.3	15,035
May '56	123.9	14,870
Oct. '56	121.8	14,620
Dec. '56	121.2	14,545
Jan. '57	121.2*	14,545*

*Preliminary.

A comparison of the residential rental index with either the cost of building or the selling price of existing buildings would indicate that rents are unusually low and have shown remarkably little progress since the bottom of the depression in comparison with the increases in selling prices of housing, of building costs, or in comparison with the selling prices of commodities. The fact that residential rents have not risen by a greater percentage is the best reason we have not built more dwelling units for rent. Since construction costs have gone up far faster than rents, it is rather difficult at the present time, in most communities of the United States, to build a new multifamily building where the rents will be high enough to pay an adequate return on the cost of the investment. This is particularly true in the lower rent levels.

In January 1957 our rent index was 134.2, using 1947-49 as 100. This is the same as the figure in December 1956, and compares with 131.4 in January of a year ago. This is an increase of 2.4% in the last 12 months.

A comparison between the cost of the standard six-room frame house and the fluctuations in the wholesale price index will show a rough parallelism with two rather striking dissimilarities. In the period of World War I the wholesale price index increased far faster than the cost of building. Because of the war demand for many materials used in the war effort, labor rates rose slower than material prices at that time, resulting in a more gradual increase in the cost of building and with a higher level in 1925 than we would expect from the wholesale price index line. The second striking difference in these two lines is the difference in the long-term trend. The cost of building has risen over the entire period in relationship to wholesale prices. Had the same relationship existed throughout the entire period, the cost of building would today be 47% less than it actually is.

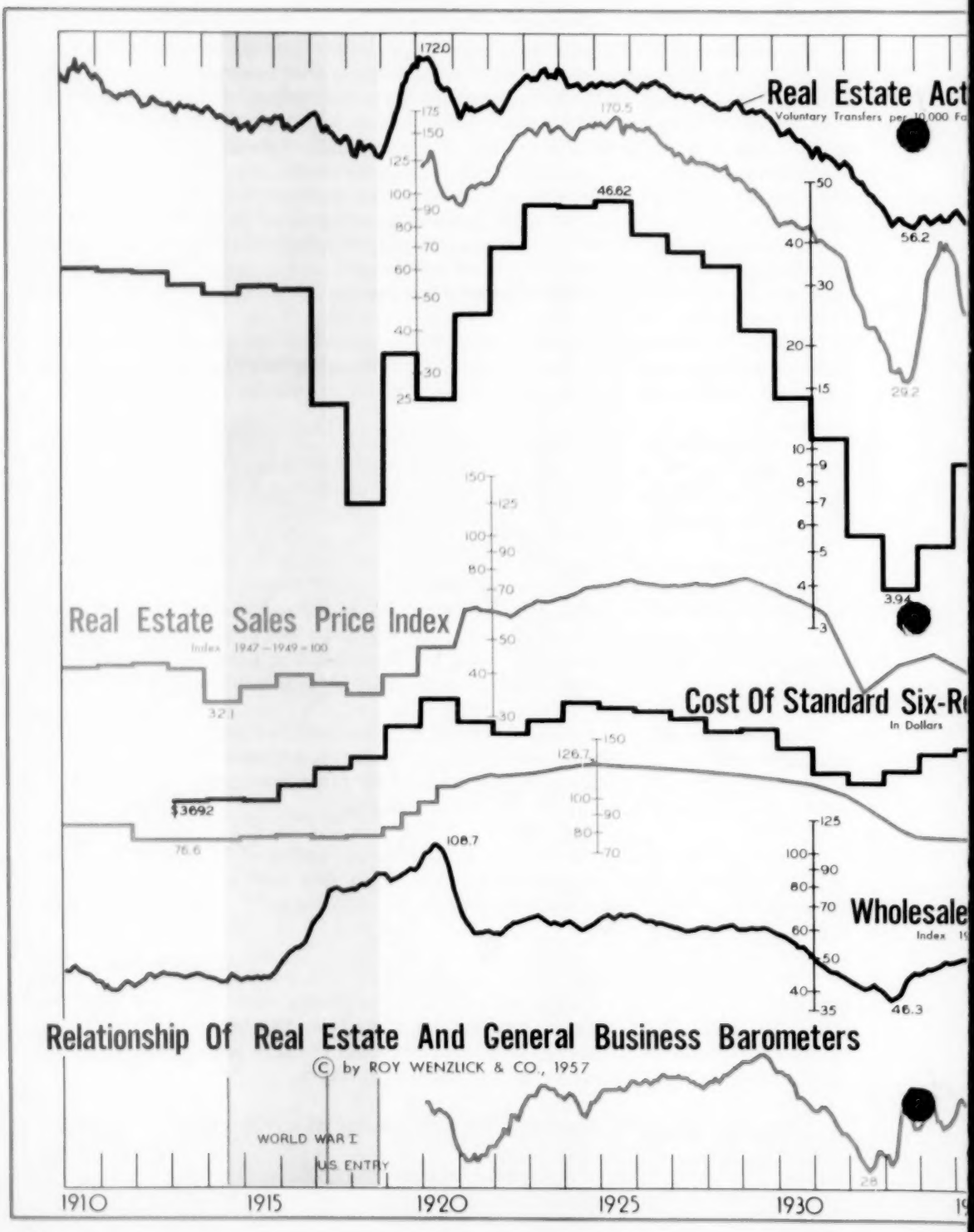
Real estate activity (voluntary transfers of real estate) has shown considerable similarity to the fluctuations in mortgage activity, although mortgage activity has had a tendency to fluctuate a little more wildly than transfers. This is particularly noticeable in the great depression period.

Real estate transfers in January 1957 were occurring at 86.6 transfers per 10,000 families. This is slightly higher than December 1956, when the comparable figure was 84.0, but it compares with 94.7 in January 1956, or a drop of 8.6%.

There seems to be less relationship between the fluctuations in industrial production in the United States and real estate activity than between any other two lines on the chart. Sometimes industrial activity has been rising and real estate activity has been falling, and sometimes the reverse has been true. The two lines apparently followed a totally different pattern.

Mortgage activity in January 1957 was running at a rate of 69.5 mortgages

(cont. on page 82)


Real Estate Act
Voluntary Transfers per 10,000 Fa
172.0
170.5
46.62
56.2
29.2
3.94
Real Estate Sales Price Index
Index 1947–1949 = 100
32.1
Cost Of Standard Six-R
In Dollars
$3692
126.7
76.6
108.7
Wholesale
Index
46.3
Relationship Of Real Estate And General Business Barometers
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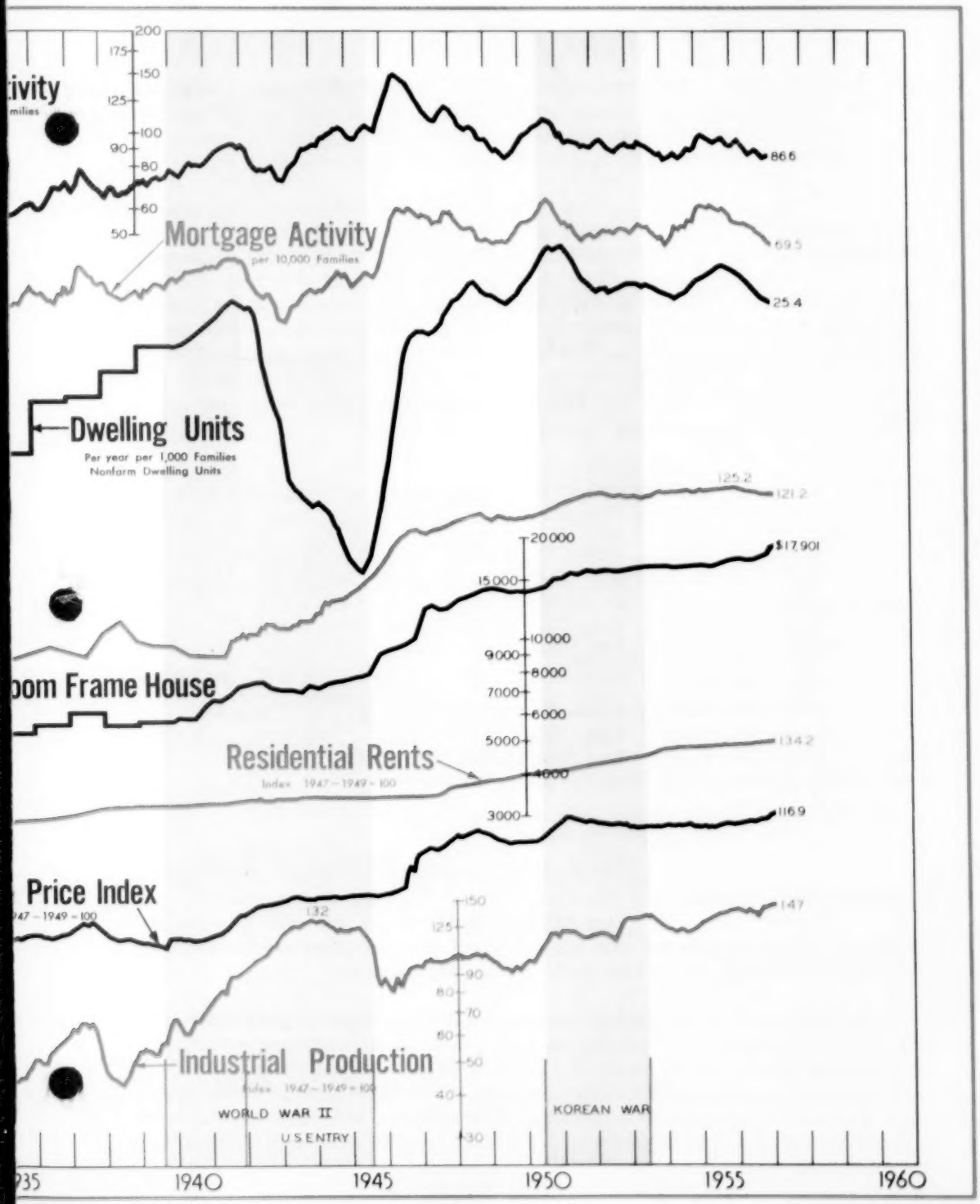
WORLD WAR I
U.S. ENTRY
1910
1915
1920
1925
1930


Mortgage Activity
per 10,000 Families
866
69.5
25.4
Dwelling Units
Per year per 1,000 Families
Nonfarm Dwelling Units
125.2
121.2
$17,901
oom Frame House
Residential Rents
Index 1947–1949 = 100
134.2
116.9
Price Index
147
132
Industrial Production
WORLD WAR II
U.S. ENTRY
KOREAN WAR
1940
1945
1950
1955
1960

(cont. from page 79)

per 10,000 families. This compares with 71.3 in December 1956, and 80.4 in January of a year ago. This is a drop of 13.6%, which reflects the tightness in the money market. If the comparison is made with January 1955, when 89.7 mortgages were recorded per 10,000 families, the drop is 22.5%.

MORTGAGE INTEREST RATES

The table below shows the average interest rate of recorded mortgages in 12 major cities of the United States. This is rising rather rapidly at the present time, but it should be kept in mind that there is always a lag between mortgages being made and the dates on which they are recorded. Also, during much of 1956 there were considerable discounts on VA's and FHA's. These discounts are not represented in the figures, and as the discounts decrease in 1957 the rate will rise to compensate. We expect that recorded mortgages will show a constantly increasing rate during 1957.

AVERAGE INTEREST RATE OF RECORDED MORTGAGES IN 12 MAJOR CITIES OF THE UNITED STATES

Jan.	'54	5.187%	July	'55	5.050%	May	'56	5.158%
Apr.	'54	5.173	Aug.	'55	5.049	June	'56	5.155
July	'54	5.089	Sept.	'55	5.043	July	'56	5.141
Oct.	'54	5.092	Oct.	'55	5.055	Aug.	'56	5.190
Jan.	'55	5.070	Nov.	'55	5.051	Sept.	'56	5.183
Feb.	'55	5.070	Dec.	'55	5.066	Oct.	'56	5.229
Mar.	'55	5.087	Jan.	'56	5.105	Nov.	'56	5.221
Apr.	'55	5.079	Feb.	'56	5.177	Dec.	'56	5.273
May	'55	5.044	Mar.	'56	5.212	Jan.	'57	5.363
June	'55	5.052	Apr.	'56	5.157			

CONSTRUCTION COSTS

The following two pages show present construction costs of six single-family residences, two multifamily residences, and one commercial building. For plans and specifications on each of these buildings see the Wenzlick Building Cost Manual, which also gives city-by-city variables.

Building costs are still continuing up, and it looks at the present time as if this upward movement will last during 1957. Increases in cost, however, will be relatively slight, as the reduced volume of residential building and heavier inventories of many residential building materials will offset some of the increased labor costs and other inflationary factors. Also, during 1957 we think that most residential building contractors will figure their profits more closely than they did in preceding years.

INCREASES IN BUILDING COSTS SINCE 1939

ST. LOUIS
February 1957

SIX-ROOM BRICK HOUSE (FRAME INTERIOR)*
Content: 23,100 cubic feet
1,520 square feet
Cost 1939: $ 6,400
(27.7¢ per cubic foot; $ 4.21 per square foot)
Cost today: $18,680
(80.9¢ per cubic foot; $12.29 per square foot)
INCREASE OVER 1939 = 191.9%
For plans and specifications see page 23 of the Wenzlick Building Cost Manual.

FIVE-ROOM BRICK VENEER HOUSE*
Content: 24,910 cubic feet
1,165 square feet
Cost 1939: $ 5,440
(21.8¢ per cubic foot; $ 4.67 per square foot)
Cost today: $16,176
(64.9¢ per cubic foot; $13.88 per square foot)
INCREASE OVER 1939 = 197.4%
For plans and specifications see page 15 of the Wenzlick Building Cost Manual.

SIX-ROOM FRAME HOUSE*
Content: 24,288 cubic feet
1,650 square feet
Cost 1939: $ 5,671
(23.4¢ per cubic foot; $ 3.44 per square foot)
Cost today: $17,901
(73.7¢ per cubic foot; $10.85 per square foot)
INCREASE OVER 1939 = 215.7%
For plans and specifications see page 3 of the Wenzlick Building Cost Manual.

6-ROOM CALIFORNIA BUNGALOW - NO BASEMENT
Content: 12,119 cubic feet
992 square feet
Cost 1939: $ 3,392
(28.0¢ per cubic foot; $ 3.42 per square foot)
Cost today: $10,111
(83.4¢ per cubic foot; $10.19 per square foot)
INCREASE OVER 1939 = 198.1%
For plans and specifications see page 31 of the Wenzlick Building Cost Manual.

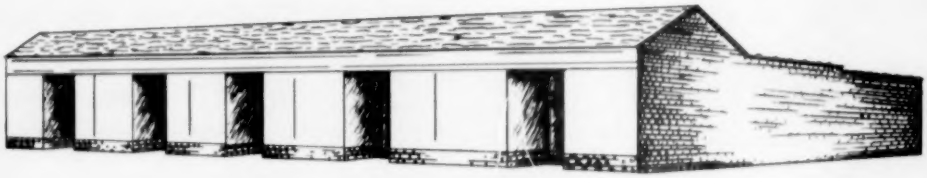
STANDARD BRICK RANCH HOUSE
Content: 16,250 cubic feet
840 square feet
Attached garage - 200 square feet
Without garage - $12,537
($0.772 per cu. ft.; $14.93 per sq. ft.)
Garage - $935
($4.68 per sq. ft.)
For plans and specifications see page 52 of the Wenzlick Building Cost Manual.

CONTEMPORARY FRAME RANCH HOUSE
(Dry Wall)
Content: 12,285 cubic feet
1,170 square feet
Carport - 320 square feet
Without carport - $12,901
($1.05 per cu. ft.; $11.03 per sq. ft.)
Carport - $603
($1.88 per sq. ft.)
For plans and specifications see page 41 of the Wenzlick Building Cost Manual.

*Costs include full basement.

INCREASES IN BUILDING COSTS SINCE 1939

ST. LOUIS
February 1957



COMMERCIAL BUILDING - NO BASEMENT
Content: 115,850 cubic feet
8,075 square feet
Cost 1939: $22,726
(19.6¢ per cubic foot; $2.82 per square foot)
Cost today: $67,554
(58.3¢ per cubic foot; $8.37 per square foot)
INCREASE OVER 1939 = 197.3%

For plans and specifications see page 74 of the Wenzlick Building Cost Manual.

18-FAMILY BRICK APARTMENT
(FRAME INTERIOR)*
Content: 168,385 cubic feet
13,260 square feet
Cost 1939: $ 60,300
(35.8¢ per cubic foot; $ 4.55 per sq. ft.)
Cost today: $177,321
($1.05 per cubic foot; $13.37 per sq. ft.)
INCREASE OVER 1939 = 194.1%

For plans and specifications see page 60 of the Wenzlick Building Cost Manual.

30-UNIT REINFORCED
CONCRETE APARTMENT*
Content: 303,534 cubic feet
21,372 square feet
Cost 1939: $135,000
(44.5¢ per cubic foot; $ 6.33 per sq. ft.)
Cost today: $382,968
($1.26 per cubic foot; $17.92 per sq. ft.)
INCREASE OVER 1939 = 183.7%

For plans and specifications see page 68 of the Wenzlick Building Cost Manual.

*Costs include full basement